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No. 705

Supreme Court of the United States

REPLY BRIEF FOR PETITIONERS

Supreme Court of the United States

OCTOBER TERM, 1957

No. 707

WARREN PETROLEUM CORPORATION and WARREN MARITIME CORPORATION,

Petitioners,

v.

INTERNATIONAL INDUSTRIES, INC.,

Respondent

REPLY BRIEF FOR PETITIONERS

The Brief in Opposition is noteworthy for what it omits. Nowhere does it come to grips with the legal issues which require this Court's determination. Rather, it seeks to minimize their significance by casting them in a factual mold and insinuating that, in any event, this is simply another diversity case.

1. The suggestion that federal law is not involved in these damage questions seems particularly odd, for, as the Court of Appeals noted, "the parties have relied wholly upon federal precedents" (Appendix, p. 59, n. 1). This reliance upon federal law is based upon the fact, also acknowledged by the court below, that with regard to damages the law of trade secrets and the law of patents are virtually indistinguishable. De-

cisions in one field are commonly invoked and followed in the other. So in this case, when the Court of Appeals' decision is contrary to decisions of this Court and of other Courts of Appeals applying principles of patent law, it can hardly be said that "only common law equitable principles" are at stake (Brief in Opp., p. 5). Unless this Court, the sole forum where such conflicts can be resolved, agrees to grant review, confusion must necessarily spread to an important field of federal statutory law.

Respondent endeavors to avoid this fact by implying that, because of a 1946 amendment to the patent statutes, 60 Stat. 778, the standard of comparison method of measuring damages is no longer applicable to patent cases (Brief in Opp., p. 5). This simply is not so, as respondent itself concedes a few pages later by stating:

> "And even in a patent accounting suit, this Court has made it clear in *United States* v. *National Lead Co.*, 332 U.S. 319, 350, that such [reasonable royalty] doctrine is used only when no standard of comparison is available." (Brief in Opp., p. 9)

In the *National Lead* case, the Court, after discussing the 1946 amendment, explicitly recognized the continuing vitality of the standard of comparison method.

2. Equally misleading is respondent's effort to pass off as a finding of fact the decision below that *Gordon Form Lathe Co.* v. *Ford Motor Co.*, 133 F.2d 487 (6th Cir. 1943), *aff'd by an equally divided court*, 320 U.S. 714, precluded the consideration of either barge or hori-

zontal tankship as a standard of comparison. And the assertion that "Petitioners' brief erroneously states that these alternative methods of transportation were available at the time of the appropriation" (Brief in Opp., p. 3) is merely respondent's own legal conclusion and not, as respondent would have it, a matter of fact. The Petition for Certiorari did not dispute that no formal designs for those methods was in existence at that time. But since the evidence was also uncontroverted that such designs could have been made and the vessels constructed at the relevant time, the Petition maintained that, under the *Gordon* case and *Tidewater Co.* v. *Proctor*, 125 U.S. 136, these methods were "available" as a matter of law and should have been considered below. Significantly, respondent's discussion of this issue utterly fails to deal with either of these decisions, despite the fact that the Petition for Certiorari demonstrated that the Court of Appeals' decision is in conflict with both of them (Petition, pp. 12-14).

3. Perhaps the most topsy-turvy portion of the Brief in Opposition is its invocation of the Master's Report to support the Court of Appeals' conclusion that "the result sought [by Warren] was the most inexpensive means of transportation to Newark" (Appendix, p. 62). The quotation excerpted from the Master's Report (Brief in Opp., pp. 3-4) is from a discussion of the LPG market *in the northeastern states*, which the Master specifically found *not to be at Newark*, the f.o.b. point, but at the plants of Warren's customers. Unlike the Court of Appeals, the Master looked through form to substance and properly refused to make his

decision turn upon whether the customer paid part of the freight directly or whether he paid it indirectly as part of the purchase price.

Like a bird feigning a broken wing, to divert attention from her chicks, respondent continually diverts with irrelevancies attention from what actually was done below. Respondent's repeated insistence "that in applying the standard of comparison doctrine, it must be done in accordance with the manner in which the wrongdoer actually conducted its business by use of the infringing device," (Brief in Opp., p. 10), belabors a point which is nowhere denied or doubted in the Petition for Certiorari. What is at issue is the Court of Appeals' entirely unwarranted determination that Newark, which was merely a transfer point on the route from Texas to the customer, was Warren's desired destination and that Warren would have committed commercial suicide by shipping 132,000,000 gallons of LPG to Newark by rail had the NATALIE been unavailable during the accounting period.

Nothing can obscure the fact that the court below erred in applying the standard of comparison method. The result it achieved is plainly absurd and intolerably unjust. Under the decision below respondent may lay claim to a recovery running well into millions of dollars as "compensation" for the appropriation of a trade secret that was offered to Warren for $5400 and was developed at the cost of, at most, $40,000. The Brief in Opposition does not try to refute the obvious conclusion that a standard that could yield such results is one that would never have been

used by the infringer and should never have been selected by the court. That the decision below is flatly contrary to *Gordon Form Lathe Co.* v. *Ford Motor Co.*, *supra*, in this regard is apparently without significance to respondent, for the Brief in Opposition again ignores what it would be difficult to refute.

4. The refusal of the Court of Appeals to affirm the District Court's award of a reasonable royalty in these circumstances is wholly indefensible. It is unfortunate that respondent, conceding the propriety in patent cases of a recovery based upon the reasonable value of the use of the appropriated device, should state that "There is not a single case which has ever used the reasonable royalty doctrine as a measure of damages in a trade secret case." (Brief in Opp., p. 9). This is simply a play upon the word "royalty", which, as a technical term, is not used in trade secret cases. But in one of the very cases relied on by respondent, *Matarese* v. *Moore-McCormack Lines*, 158 F.2d 631, the Court of Appeals held that:

> "The judge properly charged that recovery must be based upon the 'reasonable value of the use' of the devices and the 'reasonable value of the services' rendered by the plaintiff." (p. 635)

This is precisely the recovery that the Master and District Court awarded in this case, mindful that the "result should not be an unreasonable one which leads to hardship, injustice or absurdity." *Gordon Form Lathe Co.* v. *Ford Motor Co.*, *supra*, at 497.

CONCLUSION

Respondent's Brief in Opposition in no way responds to the issues presented by the Petition for Certiorari. It remains clear, first, that the decision below is absurd in result; second, that in reaching such a result the Court of Appeals came in direct conflict with both *Tilghman* v. *Proctor, supra*, and the decision of the Sixth Circuit in *Gordon Form Lathe Co.* v. *Ford Motor Co., supra;* and third, that this decision, if allowed to stand, will be disruptive in both trade secret and patent litigation. Respondent's studied failure to meet these issues highlights the fact that the decision of the Court of Appeals is plainly wrong and that respondent has no adequate basis to defend it. In this situation, the administration of justice will best be served if this Court summarily reverses the decision below and reinstates the judgment of the District Court. In the alternative, should oral argument be desired, the case may be placed on the summary docket.

Respectfully submitted,

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